



California has regained its legendary status as the Golden State. Having emerged from the worst economic recession since the Great Depression, California is now once again leading the nation in job creation, new businesses, cutting-edge technologies, and international trade.

California's economic resurgence is being led by new, knowledge-based industries including high-technology, foreign trade, entertainment, and professional services. These future-growth industries have become the engines of California's "New Economy," and form the nucleus of California's potential to lead the nation toward a 21st century global economy.

But California's future is laden with challenges that must be met head on if we are to realize the opportunities this New Economy offers. Our State's education system and infrastructure -- schools, roads, water ways, and transportation systems -- have lagged dangerously behind California's growth in recent years. And with the State's population is expected to nearly double in the next 25 years, California's future depends on addressing these needs today and planning for tomorrow.

As your United States Senator, I have worked hard to make sure Federal policies meet California's needs, from balancing the Federal budget, to providing special loans to help California businesses convert to non-defense sector industries, to providing funds for environmental clean-up and community policing programs. This booklet is intended to help you understand some of the issues facing California and California families. I would be happy to hear your thoughts and comments.

A handwritten signature in blue ink that reads "Dianne Feinstein". The signature is fluid and cursive, with the first name "Dianne" and last name "Feinstein" clearly legible.

Dianne Feinstein

California: the Winds of Change

For the fourth time in a century, California has reinvented itself, from a primarily agriculture and resource-based economy early in this century, to the manufacturing society that emerged during World War II, to a defense industry giant led by aerospace and fed by the Cold War defense spending of the 1980s. Now, in the aftermath of the Cold War and subsequent defense downsizing, in addition to an economic downturn that savaged California's employment base, and a series of devastating natural disasters, California has had to reinvent itself once again.

California has been undergoing a major economic transformation since 1993. Between 1990 and 1993 alone, the state lost over a half a million non-farm jobs in the worst recession in recent history. Manufacturing, construction, and aerospace were particularly hard hit:

- ◆ **Between 1990 and 1996, aircraft, space and defense-related manufacturing industries in California lost more than 216,000 jobs, dropping from 482,000 in 1990 to approximately 265,000 in 1996.**
- ◆ **The construction industry in California lost nearly 50,000 jobs, falling from 561,000 to 516,000 between 1990 and 1996.**

California recovered from the economic earthquake of the 1990s with a re-tooled and reinvigorated economy that has adjusted to dynamic world market forces. No longer the manufacturing state with production lines of the past, California's economic engines now turn on knowledge-based industries, with four major sectors forming California's new economic base:

- Foreign Trade
- High Tech Manufacturing
- Professional Services
- Tourism and Entertainment

Propelled by strong growth in these emerging sectors, California more than made up job losses as the result of the downturn. The state out-paced the nation in job growth in 1995 and 1996, and is expected to continue to create jobs at a faster rate throughout 1997 and beyond.

- ◆ **In 1996 alone, California added over 450,000 jobs, bringing unemployment back to pre-recession levels. The State's unemployment rate of 6.3% is now at its lowest since 1990.**
- ◆ **Experts project California will churn out 1.2 million jobs over next three years, continuing to out-pace the nation in job growth.**

California's "New Economy" -- Shift to Future-Growth Industries

California's new economy is centered around the fast-growing technology markets of the future -- multi-media, high tech service and manufacturing, biotech, professional services, and foreign trade.

- ◆ **Today tourism and entertainment employ more than 500,000 people -- nearly double the number employed in the defense industry.**
- ◆ **High technology services and manufacturing continue to lead job growth. In 1996, employment in services expanded by 197,000 jobs, with over 40 percent of that growth in business services which include computer software.**

While heavy industry sectors -- steel, metal products, machinery and chemicals -- have seen substantial job losses in California and the nation, California has done well in the "light" diversified manufacturing industries: apparel, biotech research and development, special industry machinery, publishing, and beverages.

- ◆ **Special industry machinery is California's hottest new growth industry. Jobs in this sector, which includes firms which manufacture the equipment to make semiconductors, have doubled since 1994, employing more than 21,000 people.**
- ◆ **Apparel now employs more Californians than computers, electronic components, or aircraft, accounting for more than 160,000 manufacturing jobs in the state in 1996.**
- ◆ **California is a national leader in biotech R&D. Of the 1,287 biotech companies in 1996, nearly 30% (373 firms) are located in the San Francisco Bay Area, San Diego, and Los Angeles regions.**



FOREIGN TRADE:

International trade is an increasingly important part of California's economic base, accounting for more than 25% of the State's economy. California's share of total U.S. foreign trade has increased steadily.

More than 1.5 million jobs in California are tied to foreign trade.

- ◆ In 1996, California ports handled 21.5% of all US trade - a record high.
- ◆ Los Angeles has surpassed New York as the nation's busiest trading center, handling \$170 billion in trade volume in 1996.
- ◆ Led by the Bay Area's technology exports, the San Francisco Customs District has seen substantial trade growth in the last three years: 17.7% in 1994, 27.7% in 1995, and 16.7% in 1996.



Goods produced in California for export also grew as a share of the U.S. total, hitting a record high of 17% in 1996. Computers, electronics and aircraft are California's largest export industries with strong future growth prospects.

- ◆ In 1996, California firms produced \$104.4 billion in goods for export -- triple the \$34.3 billion in goods California produced in 1987.

CALIFORNIA'S EXPORT FUTURE: PACIFIC RIM

California is America's top exporting state, and is positioned to maintain this leadership position for two reasons: 1) California's exports are concentrated in high growth industries, and 2) the top five California export partners are among the fastest growing, large export markets in the world -- along the Pacific Rim.

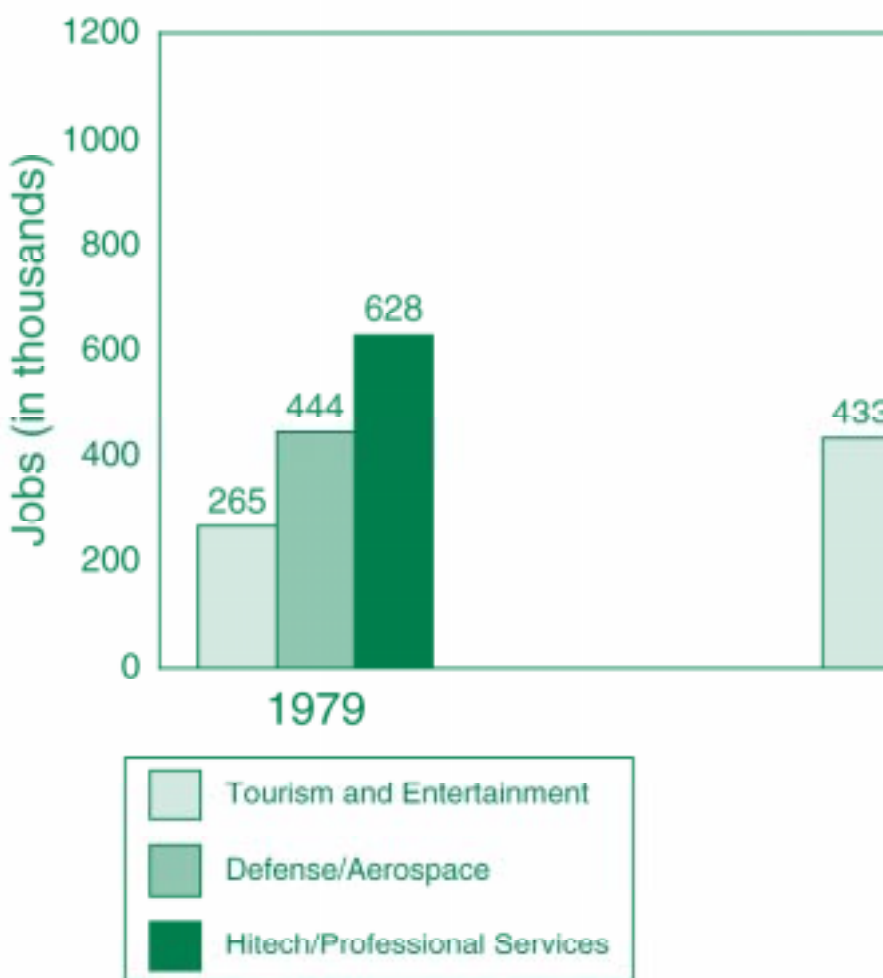
Japan, Canada and Mexico are still among California's top trading partners, but the fastest growing large export markets since 1990 have been Malaysia, Hong Kong, Singapore and Taiwan.

- ◆ **Pacific Rim countries account for 72% of California's total exports**
- ◆ **In 1996, California's trade with Japan was nearly \$20 billion.**
- ◆ **South Korea is California's third largest export market, doubling since 1990 to reach nearly \$8.7 billion in 1996.**
- ◆ **California's trade with China reached nearly \$2 billion in 1996.**
- ◆ **Hong Kong is now in the top ten export markets for California, and is directly tied to the rapid growth in China's overall economy.**
- ◆ **A 217% gain since 1990 makes Malaysia the State's fastest growing export market.**



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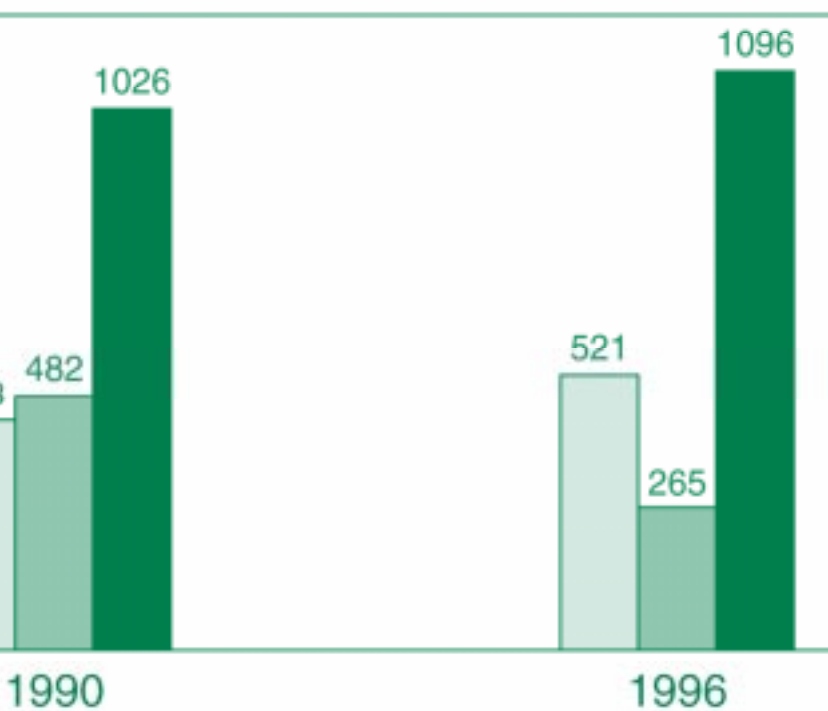
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Source: Center for the Continuing Study of the California Econo

growing Job Base

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Challenges For the California Economy

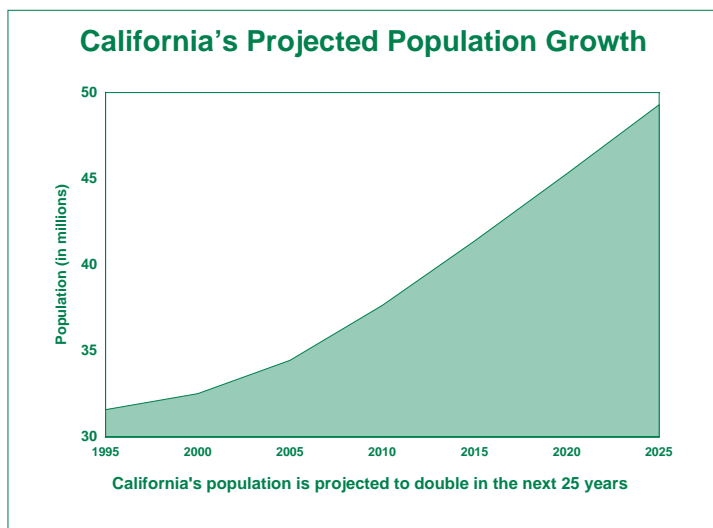
California is known as a trend-setter for the nation on many social, business, and political issues. Our State is also a trend-setter in terms of challenges. Many of the challenges that await the nation will first be met in California: population growth, cultural diversity, an aging infrastructure, and meeting the educational and technology needs to compete in a dynamic global market.

As all of the experts glow about the return of the Golden State, each has also warned that California faces a number of serious challenges that will have to be met in order to sustain the robust economic expansion and high quality of life that make California a great place to live and work.

POPULATION

- ◆ **California's population is projected to increase from 32 million people to 50 million over the next 25 years.**

California's population continues to grow faster than the nation. Where will these people live? How will they get to work? Where will their children go to school? Growth concerns are already starting to re-emerge in many areas of the State -- traffic congestion, crowded schools, lack of available or affordable housing, and the pressure of rapid growth on the environment. Managing growth is not a new issue to California communities, but answering these questions requires planning, prioritizing, and a commitment of resources on both the state and local level.



EDUCATION

Perhaps California's biggest challenge is developing a skilled workforce able to support an economy whose competitive edge lies in information and knowledge-based industries.



In 1997, the Center for the Continuing Study of the California Economy issued a blunt warning: Without improving the ability to educate and train our people, California risks leaving behind huge segments of our society in our economic gains. Two large groups of residents are most at risk:

1. Groups that do not have the minimal skills or education to participate in the 21st century economy.
 - High school dropouts
 - Many welfare recipients
 - Poorly educated high school graduates with low skills
2. Many employed or dislocated middle class workers who cannot keep pace with the changing economy, or need re-training to learn new skills.

In order to meet the education challenge, California must address serious deficiencies in our current education system. In recent years, California has ranked very low on most measures of public investment in education:

- ◆ **47th -- near the bottom of the list -- in class size compared to other states. Despite efforts to reduce class size, California still has the most crowded classrooms in the nation.**
- ◆ **42nd out of 50 in per student spending.**
- ◆ **49th in the numbers of computers per student in schools.**

As the Center's report on 1997 California's economy clearly states: Ranking in the bottom 20% of all states is simply not compatible with meeting the requirements of industries which will lead California in the world economy.

INFRASTRUCTURE

California's infrastructure has lagged far behind our State's population growth, and there is no comprehensive, long-term plan for how to meet the projected increases in need and other challenges in the next ten to twenty years.

- ◆ **California's K-12 schools -- already among the most crowded in the nation -- currently serve more than 5.2 million students, with average enrollment projected to increase by 99,000 students per year from 1996 - 2006.**
- ◆ **The California State University system, with 255,456 full time students, is currently operating at 97% capacity. Enrollment demand is expected to increase by as much as 65,000 over the next ten years.**
- ◆ **The California Department of Corrections (CDC) currently incarcerates 146,000 adult felons in space built for 127,000 inmates at double occupancy. Even with the aggressive prison construction programs of the last 15 years, by 2002, CDC will be out of bed capacity, including all temporary and emergency accommodations.**
- ◆ **California has ranked near the bottom of all states in per capita highway spending.**



In addition to the issues of schools, transportation and prisons, California must plan for increased police and fire protection, water needs, solid waste disposal, seismic safety of aging schools, public buildings, highways and bridges, and maintaining environmental quality -- clean air and water.

The devastating floods of January 1997 also brought into focus the need to restore and maintain California's levees and other flood control systems. Safe drinking water for millions of California residents depend on California's 6,000 miles of levees, and many were left damaged or weakened after the floods.

Building the Future Together: **Partnerships for the 21st Century**

The challenges faced by Californians and other Americans must be met by working together and forming partnerships -- the federal government working with states and local communities to solve problems or provide the tools to solve problems; combining public and private investment and know-how to create jobs, provide training and opportunities, and deliver services more efficiently and effectively.

Here are some of the initiatives I have been working on as your United States Senator to help Californians prepare for a 21st Century Economy:

SBA DELTA Program - In 1994 I authored legislation to create the Small Business Administration's Defense Loan and Technical Assistance (DELTA) program, a \$1 billion national loan guarantee program administered by the SBA to help defense-dependent small business to diversify to non-defense industries. Since the program was authorized, the DELTA program has guaranteed more than 100 loans, 42 of which were to California companies, for a total of \$60 million. More than 725 California jobs were either retained or created as a result of these loans.

Employer-Provided Education Assistance - As part of the balanced budget plan, I co-sponsored an amendment that will permanently extend the tax credit for employers who provide education assistance to their employees. In addition, the assistance would not be considered part of an employee's income for tax purposes.

Orphan Drug Tax Credit - Co-sponsored legislation to permanently extend a 50% non-refundable credit for certain expenses involved in testing "orphan drugs." The legislation passed as part of the balanced budget plan.

Research and Development Tax Credit -- Co-sponsored legislation to extend the research and development tax credit, aimed at helping California's high technology and biotech industries.

IRA Reform -- Co-sponsored legislation to permit penalty-free IRA withdrawals for the purchase of a first home, to pay for certain educational expenses, or for any expenses during periods of unemployment.

Investment in Education -- As part of the balanced budget plan, I supported legislation to invest \$40 billion in education -- the largest investment in education since the G.I. Bill in 1945 -- including \$1500 Hope Scholarships for the first two years of college, a 20% tax credit for junior and senior years or re-entry students, and an increase in Pell Grants for low income students.

RESOURCES:

For more information about the California Economy:

- Center for the Continuing Study of the California Economy
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(415) 321-8550 phone (415) 321-5451 fax
- The California Institute for Federal Policy Research
419 New Jersey Ave., S.E.
Washington, D.C. 20003
(202) 546-3700 phone (202) 546-2390 fax
- Pacific Gas & Electric Company Economic Outlook Report
Dr. Tapan Munroe (415) 973-8687 phone
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